Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Reform Filings	)	
	)	
GTE Telephone Operating Companies Tariff FCC No. 1	)	Transmittal No. 1123
	)	
	)	
GTE System Telephone Companies Tariff FCC No. 1	)	Transmittal No. 226

97-249
97-250

REPLY OF GTE

GTE Telephone Operating Companies
and the GTE System Telephone
Companies

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December 17, 1997

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SUMMARY

The GTE companies filed tariff revisions to implement the *Access Reform Order*. In support of this filing, GTE submitted volumes of data supporting the tariffs including highly sensitive confidential information. GTE believes that the proposed rates implementing access reform are reasonable and reflect a good faith effort to comply with a very complex set of regulations. The GTE companies address in this Reply the allegations raised by AT&T and MCI with regard to line port costs, TIC rates, End user common line demand and CCL charges. GTE shows that it has complied with the relevant rules in developing its rates and that no further investigation of the access reform tariffs is justified. Therefore, the Petitions should be denied.

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REPLY OF GTE

The GTE Telephone Operating Companies ("GTOCs") and the GTE System Telephone Companies ("GSTCs") (collectively, "the GTE companies") respectfully reply to the Petitions filed by AT&T[1] and MCI[2] ("Petitions") against the above-referenced tariff transmittals of the GTE companies implementing the requirements of the *Access Reform Order*.[3]

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1 Petition and Comments of AT&T Corp., filed Dec. 11, 1997 (though dated Dec. 10, 1997). AT&T did not file or serve its Petition until December 11, even though petitions against the transmittals were due to be filed and served by December 10. Because Section 1.773 requires extremely short deadlines for streamlined tariff filings, timely service is essential. The filing carrier has only three days to respond to numerous issues. In the interest of fairness to the GTE companies (and other carriers) who did not have adequate time to prepare responses, the Commission should not accept or consider AT&T's late-filed Petition.

2 MCI Petition to Suspend and Investigate, filed Dec. 10, 1997.

3 *In the Matter of Access Charge Reform*, First Report and Order, FCC 97-158, CC Docket No. 96-262, released May 16, 1997. (*"Access Reform Order"*)

These Petitions allege various deficiencies in the way the LECs have implemented the access reform requirements. Despite the fact that the GTE companies have submitted volumes of data supporting their tariffs, the Petitioners claim that the LECs have not submitted adequate or sufficient cost support. In what has become an ever recurring theme, AT&T argues that the LECs have overstated access rates and undermined local competition. Both AT&T and MCI ask the Commission to begin an investigation of the access reform tariffs. The GTE companies address these allegations below and show that GTE's proposed rates implementing access reform are reasonable and reflect a good faith effort to comply with a very complex set of regulations. The Petitions should be denied.

I. Line Port and Trunk Costs

Both AT&T (at 3) and MCI (at 2) argue that the LECs, including the GTE companies, have not sufficiently removed line and trunk port costs from the Local Switching rate element to the Common Line rate element as was required by the *Access Reform Order*.

A. GTE has provided adequate supporting documentation.

Petitioners contend, as an initial matter, that the LECs have not provided adequate supporting material to them for analyzing the line port and trunk port costs. This clearly is not the case. GTE submitted actual costs of line and trunk cards used to develop port rates, by switch type, as AT&T suggests. GTE's supporting documentation, including very detailed investment information

submitted under confidentiality, provides sufficient detail from which to analyze the line and trunk port costs. Line port cost studies were used to allocate costs between Analog and "Excess to Basic" as well as to reallocate COE revenue requirement for purposes of developing exogenous costs adjustments. GTE employed the same pricing methodology to develop line port costs that it uses to support new services. In fact, GTE has far exceeded the amount of support normally required for the filing of new interstate services. The information needed to analyze the proposed rates has been provided.

B. Some variation in the percentage of line port to switching investment is justified.

AT&T (at 5) questions variations between the LECs in the percentage of their reported line port investments to local switching investments. As AT&T itself recognized (at 3), the Commission "anticipated line port costs to differ based upon switch technology and manufacturer."

Among the GTE companies, line port costs do vary, but not significantly as AT&T seems to suggest. Costs range from $15.28 in GTE's most urban and populated serving areas (FL) to a high of $21.39 in the extreme rural areas of Virginia. Such variations are to be expected within GTE's serving territories since there are significant technological and cost differences from exchange to exchange. These variations have always been inherent in GTE's interstate access rates and are typically reflected, for example, in the showings required for new services filings. However, the magnitude of difference between line port

costs among GTE's states is reasonable and certainly causes no grounds for additional investigation.

As is the case among individual states within GTE's serving areas, many factors contribute to cost variation among LECs. LECs use different technologies and different switch manufacturers with different types of hardware, software and electronics. Additionally, LECs experience different levels of usage, density of lines (and line ports) as well as different market demands by their customers. Finally, LECs have different labor rates, loading factors, overhead levels, as well as different tax levels in particular states and communities. Thus it is obvious that different LECs would have different types of cost characteristics. Although AT&T may prefer that LECs used uniform costs, variation in line and port costs was anticipated and properly reflects the reality and the variety of the LECs' network.

AT&T claims many of the LEC's fall short of the Commission's expectations that as much as 50% of local switching investment would be associated with line and trunk ports. While the Commission did note that line port investment could be as high as 50%, it was citing a consultant's study of the NYNEX telephone companies. This individual company data could not justify a benchmark threshold for line port investment that reflects the industry as a whole. While GTE's total company size, as measured by access lines, may have been similar to the former NYNEX companies, cost characteristics of its study areas are drastically different than those of NYNEX. Nevertheless, GTE's percentages of line port investment to total switching investment, measured on

the basis of actual cost relationships and revenue requirements fall in the 50% range. For example, the ratios of the port to switching investment for California is 54%, South Carolina is 43%, Washington is 44%, Florida is 55% and Ohio is 50%.[4]

AT&T (at 10) claims that the "LECs should be required to justify and document -- by switch type and manufacturer -- the investments that were included in the line port costs." In fact, GTE provided this very information to AT&T under confidential agreement, although the name of the manufacturer was not explicitly stated. Nonetheless, AT&T had sufficient information regarding the switch type to complete its analysis.

C. Exogenous cost adjustments should be developed on the basis of cost, not revenues.

AT&T (at 11) asserts that line port investment percentages should be applied to the actual revenue in the local switching basket to determine the exogenous cost adjustment to be made to common line. AT&T's desire is obviously to shift a greater amount of costs to end users, even if it is not justifiable, in order to reduce the per minute access rate it pays. AT&T's

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[4] MCI (at 2) cites GTE's investment percentages as being relatively acceptable when compared to other LECs.

argument is contrary to both Commission rules and the fundamental basis on which the price cap plan in constructed.

GTE calculated the exogenous cost change by first conducting line port cost studies to identify the unique cost of each port type. Using the relationship between these costs and local switching investment, GTE segregated that portion of its interstate local switching revenue requirement attributable to line port costs and used this actual cost as its exogenous adjustment. In effect these costs are now being directed to three categories: the basic analog line port costs are recovered through the SLCs and the PICCs, the "excess of basic analog" line port costs are being recovered through end user charges, and finally, the dedicated and shared trunk port costs at the end office are being recovered through a separate service category in the traffic sensitive basket.

GTE's methodology complies with the Commission's own rules in Section 61.45(c) and (d) which specify that exogenous adjustments to the PCI be made on the basis of *cost*, not *revenues*. Further, the Commission's Access Reform Order specifies that the exogenous cost adjustment should reflect "..recovery of interstate NTS *costs*..."[5]

GTE believes that its basis for the movement of exogenous line port costs using revenue requirement is reasonable, prudent, and consistent with the underlying assumptions of the price cap plan. Under price caps, LECs are not constrained in their pricing of individual rate elements, as long as the service

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5 *Access Reform Order* at ¶129. *See also* 47 C.F.R. §61.45(c), (d).

band upper limits and price cap indices are not exceeded. Pricing decisions within the price cap baskets are made based on a number of factors, such as type of service, demand elasticity, and competition for the various services within the market. Thus, differences between actual costs and revenues will vary between the baskets based on these pricing decisions. Therefore, forcing LECs to make exogenous cost shifts on the basis of revenues, would distort this market-based price setting. It would potentially force LECs to artificially shift cost recovery burdens from one basket to another, without regard to the market characteristics of the services contained in those baskets.

AT&T claims that LEC's must determine their exogenous cost adjustments based on the level of local switching revenue, in order to "equitably distribute any over earnings or under earnings to the line port." (AT&T at 10). AT&T's reference to "sharing of over-earnings" is not relevant. Under the original price cap plan it is the total interstate jurisdictional level, as opposed to the individual service category, which dictates "over-earnings." AT&T's method would effectively result in a return to monitoring, and adjusting rates, on the basis of individual returns within service categories even though the Commission recently eliminated any sharing obligation from the price cap plan.

In summary, the development of exogenous costs shifts based on actual costs will ensure that prices for individual access services reflect their underlying true costs, while maintaining the flexibility for LECs to set prices, within the price cap constraints, in accordance with market conditions.

D. GTE's range of ISDN line port charges is reasonable.

AT&T (at 13) challenges the wide variation in GTE's ISDN line port end user charges and suggests that the cost study procedures must have been flawed. These rate differences result not as the result of a flawed study but because GTE used a slightly different methodology for developing ISDN rates for jurisdictions which had no demand numbers when ISDN had not been offered.

As was required by the *Access Reform Order*, GTE conducted a series of fully allocated cost studies for ISDN services and adjusted the allocated results by the fully allocated cost for basic analog line ports (5 for PRIs and 1 for BRI). These adjusted costs were subsequently multiplied by the number of respective units to form a basis of allocation for the separation of line port cost between basic and excess to basic costs. Once the costs were split between among these elements, the resulting dollars were divided by the applicable units to arrive at a cost per unit.

For those states for which there were no ISDN separation dollars, *i.e.* the state had no demand for the service, the ISDN unit costs were developed solely by using fully allocated costs. Thus the large disparities, such as those between Nevada and California, became a factor To rectify this situation, GTE is proposing, in its December 17 filing, to multiply the fully allocated costs by an assumed 25% interstate allocation factor, which will in turn stabilize the costs across GTE's jurisdictions. Although GTE is proposing ISDN end user charges lower than that which is otherwise allowable under price cap regulation, GTE is

crediting the carriers the entire amount of the reduction in ISDN costs in the appropriate areas which affect the development of the PICC and CCL rates.

II. TIC Rates

A. GTE properly calculated the removal of one-third of the revenue requirement from the TIC.

Petitioners argue that the LECs, including the GTE companies, have miscalculated their Transport Interconnection Charges ("TIC"). AT&T claims (at 15) that GTE miscalculated the removal of one-third revenue requirement from the TIC. In support, AT&T calculated the amount of tandem switching and the ratio of total tandem costs to the TIC based on 1993 *revenues*. AT&T's methodology is flawed, however, since the Orders specifically state to use tandem switching *revenue requirement* as the basis for removal of costs, not revenues. Thus, AT&T's numbers must be disregarded.

GTE used numbers from its December 23, 1993 Supplemental Tariff Review Plan, Section 69.111 worksheet, Tandem Switching Charge, (f) Total Revenue Requirement as the basis for its analysis. In fact, on this particular issue, MCI (at 8) concurs with GTE, although MCI believes that there should also be a similar adjustment to the revenue requirement for tandem trunk ports and SS-7. GTE agrees and has revised its tariff accordingly in the December 17 filing. Thus, GTE's rate has been developed In conformance with the TIC requirements.

B. GTE properly calculated the TIC.

AT&T (at 18) contends that the price cap LECs, presumably including the GTE companies, have miscalculated the impacts on the TIC arising from actual volumes as opposed to the 9,000 minutes of use.[6] GTE's average MOU represents "total actual voice-grade minutes of use" as required by Section 69.111(c)(1), which includes local and toll usage, as well as access.[7] Thus, it appropriate to develop charges based on total minutes as opposed to merely access minutes.

Furthermore, use of actual MOU instead of an assumed 9000 minutes was only one of a number of factors impacting revised TIC and common transport rates. The development of the common transport facility and transport termination rates included such revised factors as the copper/fiber split, dedicated transport facility rates, dedicated transport termination rates and multiplexer rates. These changes had a significant impact on the resulting common transport rates.

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6 MCI claims that GTE's average minutes of use ("MOU") differs from that endorsed in GTE's Comments in the *Access Reform NPRM*. In its Comments, GTE supplied average MOU information that represented traffic flows from the serving wire center to the access tandem, but not the end office to the serving wire center. This volume was strictly access minutes. However, the common transport charges in the future will reflect usage from the access tandem to the end office, which includes not only access minutes, but local and toll minutes as well.

7 *Access Reform Order* at ¶208.

In those instances in which common transport rates actually declined, the residual transport costs were allocated to the TIC. The revenues not recovered in the existing common transport facility and termination rates are appropriately recovered through an upward revision in the TIC to comply with the price cap rate restructure requirement of revenue neutrality within the trunking basket.[8]

C. GTE used the correct MOU in calculating DS3/DS1 end office multiplexing revenues.

AT&T (at 20) claims that the GTE companies have understated their minutes to determine DS-3 to DS-1 multiplexing revenues by not using their 1996 switched transport fixed units used to develop their rates for common transport. Unlike the RBOCs, GTE applies termination charges, which in effect results in a single termination charge to both ends of the circuit. By using the switched transport termination units in the 1997 Annual Filing, GTE would have overstated its DS-3 to DS-1 multiplexing revenues due to the fact that multiplexers are only billed at the access tandem. Accordingly, GTE used tandem switching units from the 1997 Annual Filing (1996 historical units) to develop the relevant revenue stream.

D. GTE agrees with AT&T's revised format for recalculation of the TIC.

AT&T (at 28) has recommended a revised format for TIC recalculation to a standard format in order to facilitate review of the TIC recalculation. GTE concurs with AT&T that a standard methodology and table would facilitate the

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[8] *See* 47 C.F.R. §69.124(b)(2).

review process. GTE believes the table, though possessing significant merit, should be adopted by the industry with the following slight revision. GTE recommends that the TIC removal cost should also include General Support Factor ("GSF"), Weighted DEM and Line Ports for Trunking (if applicable). These costs would be allocated based on the appropriate level of TIC revenues to total trunking revenues for July 1, 1997 rates.

E. GTE properly recalculated the TIC using July 1, 1997 revenues.

AT&T (at 28) maintains that the base point for the re-allocation of expenses should be June 30, 1997, rather than July 1 as used by the GTE companies and the other LECs. While GTE began with July 1, 1997 revenues, its calculation took into account the June 30, 1997 TIC revenues in determining the excess targeted TIC. Thus, GTE's calculation should produce results similar to the AT&T method. Nevertheless, as discussed above, GTE is recalculating its TIC adjustments according to AT&T's suggested format.

Furthermore, non-targeted exogenous dollars should be allocated based on the rates of the last Price Cap Index ("PCI"), which in this case is July 1.[9] Thus, using July 1 data was correct.

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[9] *See* 47 C.F.R. §61.459(c).

III. End User Common Line Demand

A. The Multiline business EUCL counts are correct.

AT&T (at 36) contends that GTE's multiline business EUCL counts are in error because the numbers in the Access Reform filing are not the same as those filed in the 1997 Annual Filing. The change in units from the 1997 Annual Filing to the Access Reform filing reflects changes in the count for ISDN lines required by the *Access Reform Order*. Although GTE assumed 24 end user charges applied to ISDN lines in the 1997 Annual Filing for purposes of determining end user charge revenues and to calculate the maximum CCL rate, the *Access Reform Order* now required LECs to assume five end user charges per PRI line. Accordingly, the EUCL counts are now different from those used in the 1997 Annual Filing.

B. Because of company official lines, the PICC counts should not be the same as the EUCL counts.

AT&T (at 37) suggests that the LECs have overstated their PICC line counts since they exceed the EUCL line counts. The EUCL line counts will not be the same as the PICC line counts since EUCLs are not and never have been applied to company official lines. Company official lines, however, should be counted for purposes of the PICC.

Interexchange carriers have always paid access charges on long distance traffic over those lines. Since the proposed PICC is merely a substitute for the

current minute-of-use charges,[10] it is appropriate that the PICC be charged to such company official lines. This explains the difference in the line counts.

C. The definition of Non-primary lines used by GTE is reasonable.

AT&T (at 38) asserts that some price cap LECs improperly calculated non-primary residential line counts by using self-serving interpretations. Although the Commission has not completed the rulemaking considering definitions of primary and non-primary residential lines,[11] LECs were required to calculate primary and non-primary residential lines for the Access Reform filing. GTE implemented the "per account" definition to identify non-primary lines. GTE reasonably adopted definitions consistent with those being considered in the *Primary Lines NPRM*, using official company data and supporting its results through the use of systems, search criteria and quantities. Contrary to MCI's assertion (at 14), GTE's tariff includes a definition of non-primary lines.[12]

The comments in the NPRM generally support two definitions of primary lines based on billing account at a service location, or first service at a location. Both these definitions are verifiable based on company records. In its *Primary*

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10 *See* 47 C.F.R. §69.153(a): PICCs should include "c*ommon line revenues* permitted under the price cap rules in Part 61 of this chapter that cannot be recovered through the end user common line charge established under Section 69.152 and residual interconnection charge revenues, and certain marketing expenses."

11 *Defining Primary Lines*, Notice of Proposed Rulemaking, CC Docket No. 97-181, released, Sept. 5, 1997. (*"Primary Lines NPRM").*

12 *See* GTOC Tariff FCC No. 1 at 311.

Lines NPRM Reply Comments, AT&T, though advocating that the Commission should drop the distinction between primary and non-primary residential lines,[13] nonetheless, accepted both definitions as reasonable alternatives if the Commission decided to maintain this distinction.[14] Thus, the definition used by the GTE companies is reasonable.

D. Non-primary line counts are proper.

AT&T (at 39) claims that the GTE companies' non-primary line percentages are unsupported and appear to be extremely low. As stated above, GTE implemented the "per account" definition to identify non-primary lines. GTE's search criteria was based on this definition, and GTE is confident that line counts extracted from GTE systems accurately portray actual non-primary quantities.

AT&T (at 39) complains that the non-primary residential line counts are lower than it expected and seeks uniformity in the percentages among the various LECs. AT&T (at 39) relies on Census Bureau data and figures from its own Hatfield Model 4.0 to support its claim. The record in the *Primary Lines*

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[13] GTE agrees that the Commission should eliminate this unworkable distinction between primary and non-primary residential lines, although it does not support the weighted average approach suggested by Sprint and adopted by AT&T. GTE has previously recommended that the Commission eliminate SLC caps and deaverage SLCs. If for reasons of affordability and public policy the resulting end user charges are unacceptable, the Commission should permit recovery of common lines costs in excess of the SLC to be recovered from the competitively neutral universal service fund.

[14] *Primary Lines NPRM,* Reply Comments of AT&T at 3 and footnote at 5.

NPRM[15] disputes the use of this model because it ignores actual data, such as company records, in favor of estimates founded on inappropriate assumptions. Even MCI in its Comments in the *Primary Lines NPRM* admits to inaccuracies in the model resulting from the use of relatively "coarse-grained" census block groups as the unit of analysis.[16] Virtually none of the price cap LECs achieved the levels of non-primary lines predicted by AT&T. Given the flaws in the Hatfield model, it is not surprising that AT&T's expectations do not reflect reality.

It is not unexpected that non-primary residential lines would be more common in the urban areas served by the RBOCs and SNET than GTE's predominantly rural and small-town service areas. For example, the GTOC non-primary residential line percentage averages 5.2% of all jurisdictions, but the varies from 1.28% in Minnesota to 9.86% in Texas. For GSTC, the average is 3.48% and varies from .68% in Arizona to 5.75% in Virginia. Thus, variation in second line penetration is normal and anticipated. Since GTE's customer base is less urban, it is less likely to have residence customers with second lines. The resulting percentages support this.

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15 *See, e.g., Primary Lines NPRM,* Comments of USTA at 11, Comments of Ameritech at 8, Comments of Bell Atlantic at 12.

16 *Primary Lines NPRM,* Reply Comments of MCI at 12. MCI recommends that the Commission use a forthcoming Hatfield version rather than earlier releases if it intends to use models to verify or audit primary residential line counts.

IV. GTE's CCL Charges

AT&T (at 40) claims that GTE's CCL charges are overstated. However, GTE will fully reflect the adjustments ordered in the 1997 Annual Tariff Filing Investigation Order in the December 17 tariff filing.

V. Conclusion

For the foregoing reasons, GTE's believes that the rates implementing access reform are reasonable and reflect a good faith effort to comply with a very complex set of regulations. Accordingly, the Petitions seeking an investigation should be denied.

Respectfully submitted,

GTE Telephone Operating Companies
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Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "Reply of GTE" have been mailed by first class United States mail, postage prepaid, and facsimile on December 17, 1997 to the following parties:

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